

## Message Text

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C O N F I D E N T I A L USNATO 1947

E.O. 11652: GDS

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SUBJ: CENTRAL EUROPE PIPELINE POLICY COMMITTEE MEETING, 7-8

APRIL 1975

BEGIN SUMMARY. CENTRAL EUROPE PIPELINE POLICY COMMITTEE NOTED FRENCH CONFIRMATION OF INTERIM SYSTEM FOR USE OF FLOATING NATO RATES ON MILITARY TARIFFS, THUS THE DECISION BECAME FINAL. COMMITTEE ALSO APPROVED GENERAL LINE OF CHAIRMAN'S DRAFT REPORT CONCERNING SPECIAL PAYMENTS TO TRAPIL, AGREED TO SECOND 1975 CALL FOR FUNDS, AND SET DATE FOR NEXT MEETING IN BRUSSELS ON 22-23 MAY. END SUMMARY.

ITEMS OF INTEREST, KEYED TO AGENDA, REPORTED BELOW.

II. FRENCH REP (GENTILHOMME) AGREED TO ONE YEAR APPLICATION OF INTERIM SYSTEM OF FLOATING RATES FOR MILITARY TARIFFS RETROACTIVE TO 1 JAN 75. COMMITTEE AGREED THAT PERMANENT NEW SYSTEM MUST BE EQUITABLE IN CHARGING THE SAME REAL VALUE TO ALL USER  
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NATIONS OFR EQUAL SERVICES RENDERED. DISCUSSION REVEALED ONLY TWO METHODS OF ACCOMPLISHING THIS AIM: ONE: CONTINUATION OF INTERIM SYSTEM WHICH EVALUATES CENTRAL EUROPE PIPELINE SYSTEM (CEPS) UNIT IN FFR FOR ALL USERS, OR TWO: EVALUATION OF CEPS

UNIT IN SOME UNCHANGING ACCOUNTING UNIT. THE INTERIM SYSTEM HAS THE DISADVANTAGE OF FLUCTUATING CEPS REVENUES DEPENDING ON THE HEALTH OF THE FRENCH FRANC. ADOPTION OF AN ACCOUNTING UNIT SUCH AS SPECIAL DRAWING RIGHTS (SDRS) OR AVERAGE VALUE OF A BASKET OF NATO CURRENCIES WOULD MAINTAIN REAL VALUE OF CEPS REVENUES. MOST NATIONS WOULD PREFER THE ACCOUNTING UNIT APPROACH; HOWEVER, COMMITTEE RECOGNIZED POSSIBILITY THAT FRANCE OR ANOTHER NATION MIGHT OBJECT TO THE ABANDONMENT OF BILLING IN A NATO CURRENCY AND THUS ELIMINATE THAT CHOICE. SOLUTION IN THAT CASE WOULD BE TO MODIFY TARIFFS TO COUNTERACT ANY MAJOR CHANGES IN THE NATO CURRENCY USED AS THE ACCOUNTING UNIT. WHILE THIS APPROACH IS NOT AS SIMPLE AS THE USE OF A FIXED VALUE UNIT, IT WOULD, NEVERTHELESS, BE POSSIBLE. CENTAL EUROPE OPERAING AGENCY (CEOA) WILL FURTHER STUDY THE AVAILABLE METHODS AND REPORT AS A FUTURE MEETING FOR FINAL CEPPC DECISION.

ADOPTION BY THE CEPPC OF THE INTERIM SYSTEM WILL RESULT IN RE-EVALUATION BY CEOA OF ALL 1975 BILLINGS. IN EFFECT, TARIFFS WHICH WERE CALLED FOR IN CURRENCY OTHER THAN FRENCH FRANCS WILL BE REDUCED BY 7.7 PERCENT, AND FFR BILLINGS WILL REMAIN AS THEY WERE. THUS US CLIENTS WILL RECEIVE A REBATE OF SOME 7 PERCENT ON 1975 BILLINGS TO DATE. SINCE ALL NATIONS BUT FRANCE HAVE BEEN BILLED PRINCIPALLY IN THE MOE STABLE CURRENCIES, THE NEW SYSTEM WILL RESULT IN A SOMEWHAT INCREASED DEFICIT. THE US HARE OF THE ADDITIONAL DEFICIT WILL BE 25 PERCENT BUT, SINCE US USE OF THE SYSTEM IS GREATER THAN 25 PERCENT, THE OVERALL RESULT WILL BE A SLIGHT DECREASE IN THE COST TO THE US.

III. REPORTS OF THE INTERNATIONAL BOARD OF AUDITORS FOR 1969-1971. THIS ITEM WAS DEFERRED FOR DISCUSSION AT THE MAY MEETING.

IV. SPECIAL REPORT OF THE BOARD OF AUDITORS ON EXTRA PAYMENTS TO TRAPIL. COMMITTEE AGREED TO THE GENERAL LINES OF A REPORT DRAFTED BY THE CHAIRMAN (DUNCAN) AND REQUESTED FURTHER FLESHING OUT FOR THE MAY MEETING. GENERALLY A REPORT TO THE COUNCIL WILL INDICATE THAT BECAUSE OF THE AMBIGUITY OF THE 1965 CEPPC DECISION ON "HARMONIZATION", THE FRENCH AUTHORITIES MAY HAVE FELT CONFIDENTIAL

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THEMSELVES JUSTIFIED IN THE APPLICATION OF THE FIRST SMALL SPECIAL PAYMENT. THE COMMITTEE BELIEVES, HOWEVER, THAT THE CEPPC SHOULD HAVE BEEN INFORMED AT THE TIME THE FRENCH AUTHORITIES GRANTED TRAPIL A MAJOR AUGMENTATION IN THE SPECIAL PAYMENT. FINALLY THE COMMITTEE WILL DEPLORE THE FACT THAT THE AUDIT OF THE FRENCH ACCOUNTS DID NOT REVEAL THE SPECIAL PAYMENTS PROCEDURE OVER THE TEN YEARS THEY HAD BEEN APPLIED. THE COUNCIL WILL BE INFORMED THAT NEGOTIATIONS ARE TO BE UNDERTAKEN WITH THE FRENCH AUTHORITIES FOR MODIFICATION OF THE 1965 AGREEMENT AND FOR AUDIT PROCEDURES WHICH WILL ALLOW NATO MORE ACCESS TO FINANCIAL RECORDS DEALING WITH THE CEPTS.

IX. DAMAGE OF THE KLAPEK-BEST PIPELINE. COMMITTEE NOTED THAT

THE NETHERLANDS WOULD PREFINANCE REPAIR OF THE DAMAGE TO THE PIPELINE PRIOR TO REQUEST FOR INFRASTRUCTURE FUNDING. COMMITTEE THUS GUARANTEED PARTICIPATION IN THE COST IF IT SHOULD NOT PROVE ELIGIBLE FOR INFRASTRUCTURE FUNDING.

XI. ANY OTHER BUSINESS.

A. COMMITTEE AGREED TO THE SECOND 1975 ALL FOR FUNDS IN AMOUNT OF FFR 18.5 MILLION, WHICH WILL BE REQUESTED BY CEOA LATE IN MAY 1975.

B. COMMITTEE NOTED THE INFRASTRUCTURE COMMITTEE'S LETTER ASKING FOR CEPPC ASSURANCE THAT FULL CONSIDERATION HAD BEEN GIVEN TO THE FINANCING OF O&M COSTS FOR SLICE XXVI POL PROJECTS: SERIALS 235, 236B, 236C, AND 236E. SINCE THESE PROJECTS HAD NOT BEEN DISCUSSED BY THE COMMITTEE, THE REQUESTED ASSURANCE COULD NOT BE GIVEN. AFCENT WILL PRESENT DETAILS OF THE PROJECTS AND CEOA WILL PRESENT ESTIMATES OF ADDITIONAL O&M COSTS AT THE MAY MEETING. CEPPC REQUESTED THAT CEOA GIVE INCREASING ATTENTION TO INFRASTRUCTURE PROGRAMMING AND REQUESTS FOR FUNDS IN THE CENTRAL EUROPEAN POL PROJECTS IN ORDER TO KEEP THE COMMITTEE FULLY INFORMED OF POTENTIAL INCREASES IN FUNDING IN CEPS FUNDING DEFICITS.

C. IN VIEW OF SCOPE OF UNFINISHED BUSINESS, CEPPC AGREED TO REINSTATE THE MAY MEETING WHICH HASD BEEN PREVIOUSLY CANCELLED. BRUCE

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